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6 September 1963

MEMORANDUM FOR: Chief, Dissemination Control Branch, DD/CR
FROM : Chief, Publications Staff, ORR
SUBJECT : Transmittal of Material

It is requested that the attached copies of CIA/RR CB 63-72,
USSR Plans New Approach to Measuring Light Industrial Output, 28
August 1963, Confidential, be forwarded as follows:

State, INR Communications Center,
Room 7818, State Dept. Bldg.
For Embassies in Moscow, Bonn,
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Attachments:
Copies #180 -#185 of CB 63-72

cc: CGS/RB

ACTION COMPLETED

The dissemination requested by
this memorandum has been completed:

BY: *NDB*

Date: *6 Sept 63*

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Current Support Brief

USSR PLANS NEW APPROACH
TO MEASURING LIGHT INDUSTRIAL OUTPUT



CIA/RR CB 63-72

28 August 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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USSR PLANS NEW APPROACH
TO MEASURING LIGHT INDUSTRIAL OUTPUT

A recent announcement indicates the planned extension to all Soviet light industry of the standard cost of processing -- roughly similar to "value added" -- as the indicator for evaluating the performance of individual industrial enterprises. The standard cost indicator, which has been used for this purpose since 1957 in the sewn garments and printing industries, ^{1/} would replace the present indicator -- gross value of production. Proponents of the standard cost indicator argue that its use would encourage enterprise managers to adhere more closely to the assortment of production specified in economic plans.

1. Advantages of the Standard Cost Indicator

In the calculation of the present indicator -- gross value of production (valovaya produktsiya) -- goods now are valued in enterprise wholesale prices that were fixed in 1955. These prices include the profits of enterprises plus all costs of production (sebestoimost'), including the costs of materials. In enterprises that produce an assortment in which there is a considerable variation from one product to another in the ratio of the cost of materials to the wholesale price, the use of the gross value indicator makes it possible for a manager, with a given expenditure on wages, to inflate his output by deviating from his assortment plan in favor of those products requiring expensive materials. The present bonus system for managerial employees contains a strong sanction (forfeiture of bonus premiums) against exceeding planned expenditures on wages but none against exceeding planned expenditures on materials, thus eliminating any incentive to violate the assortment plan in favor of products with high labor costs.

The new indicator -- standard cost of processing (normativniy stoimost' obrabotki) -- includes only the wages of production workers and overhead costs such as maintenance and amortization and is akin

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to the Western concept of value added, except that profits are omitted from the new indicator. 2/ In calculating the standard cost of processing for an enterprise as a whole, each good is valued in accordance with its own standard cost. Because these standard cost valuations of goods are approximately proportional to the accounting cost of labor required to produce them, the incentive of enterprise managers to deviate from the assortment plan in the direction of material-intensive products would be reduced sharply.

A remaining practical problem in the use of the standard cost indicator to control fulfillment of the assortment plan is that, among the products in the assortment plan of an enterprise, variations in the ratio of the standard cost to the actual cost of processing would provide some incentive for the enterprise to increase production of those products for which the ratio is the highest. This problem, which could result from the application of a single standard cost for a product to all enterprises that produce that product (as has been proposed) or from using the same standard cost over too long a period of time, has led some Soviet economists to oppose the use of the standard cost indicator. 3/

2. Background

The plan to extend the use of the standard cost indicator to all of light industry was announced by N. N. Tarasov, Chairman of the State Committee for Light Industry under Gosplan, at a recent planning conference held by the USSR Sovnarkhoz. 4/ This plan, which provides for the adoption of the standard cost indicator beginning 1 January 1964 in the woolen textile, footwear, and artificial leather industries and its extension to all branches of light industry beginning 1 January 1965, is based on the results of extensive experience. In addition to its use in the sewn garment and printing industries, experiments in the Leningrad and Tatar sovnarkhozes (now in progress) and elsewhere have extended the use of the standard cost indicator to other branches of light industry and to many branches of heavy industry. 5/

3. Prospects

The results of these experiments apparently have convinced Tarasov that practical advantages in applying the standard cost indicator outweigh

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the disadvantages. The somewhat tentative tone of Tarasov's announcement, however, suggests that adoption of the indicator has not yet been fully approved at higher levels. If its adoption is approved for light industry, it is possible that the use of the indicator ultimately may be extended to other branches of industry. Because the details of its application havenot yet been announced, the results in practice of the use of the standard cost indicator cannot be predicted. The proposed standard cost indicator, like the gross value indicator, relies on the wisdom of planning agencies for the establishment of the assortment of goods to be produced in light industry. Neither approach represents an efficient or flexible way of registering consumer preference as to assortment, and continued experimentation with different bonus systems in industry is to be expected.

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